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INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS PRIORITY
RUEHBY/AMEMBASSY CANBERRA PRIORITY 6470
RUEHWL/AMEMBASSY WELLINGTON PRIORITY 1592
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C O N F I D E N T I A L SECTION 01 OF 02 BANGKOK 007508

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E.O. 12958: DECL: 12/20/2016

TAGS: [PGOV](#) [ECON](#) [EFIN](#) [TH](#)

SUBJECT: POLITICAL REACTION TO THAI FINANCIAL DEBACLE

REF: A. BANGKOK 7484 (MARKETS FALL)

[1](#)B. BANGKOK 7285 (GOSSIP ROUNDUP)

Classified By: Charge d'Affaires Alex A. Arvizu, reason: 1.4 (b) and (d).

SUMMARY

[1](#)1. (C) Politicians from the Thai Rak Thai (TRT) and Democrat parties vehemently complained about the RTG's decision to impose capital controls on December 19 (ref A). Denouncing the decision to restrict foreign repatriation of funds, our contacts nevertheless believed that the debacle would not significantly tarnish Prime Minister Surayud Chulanont, although they noted his administration continues losing its luster. A leading Chart Thai Party figure declined to criticize the administration. The stock market plunge of December 19 appears to have dealt a body blow to the political ambitions of Finance Minister M.R. Pridiyathorn Devakula, who had sought to position himself as a leading politician after the next elections. End Summary.

CHART THAI STANDS BY INTERIM ADMINISTRATION...

[1](#)2. (C) We spoke on December 20 with Chart Thai Deputy Leader Weerasak Kowsurat, to solicit his views on the sudden decision to impose limitations on the repatriation of foreign capital. Noting that reporters were interviewing Chart Thai Party Leader Banharn Silapa-Archa on the subject even during our phone conversation, Weerasak declined to go beyond Chart Thai's talking points, which avoided criticizing the cabinet.

Weerasak said the administration had to act in order to exert control over overseas investors with "short-term capital." He declined to characterize the Bank of Thailand (BOT) policy as a mistake, saying it had sent a strong and necessary signal to both foreign speculators and to the Thai exporters, who had suffered because of the Baht's appreciation.

[1](#)3. (C) Weerasak expressed gratitude that the RTG had reacted quickly to amend the BOT policy. Weerasak highlighted the ongoing rebound in the Stock Exchange of Thailand index, claiming the situation would likely soon return to normal. He appeared to give Finance Minister Pridiyathorn credit for being willing to amend the policy which he had defended publicly less than a day before. The Thai public would understand that people can overdose on good medicine, Weerasak said -- the important thing was that the economic doctors were able to recognize their dosage had been too

strong.

... BUT OTHERS LASH OUT

14. (C) Former Democrat Party (DP) legislator Pornwud Sarasin, however, bluntly characterized the sudden imposition of capital controls as "the biggest disaster." (This characterization echoed public complaints of DP Deputy Leader Korn Chatikavanit.) Noting he had just met with the Assistant Governor of the BOT, Pornwud complained that the government had to stabilize the currency, not generate financial shock waves. "If they keep doing this," Pornwud said, "the government won't last." People in elite circles were increasingly complaining about the Surayud administration, with particular concern expressed about Pridiyathorn. Whereas he previously appeared as a "fresh face" and people placed their hopes on him, now people were doubting his ability to perform his duties. However, Pornwud opined that Surayud still enjoyed a reasonably high standing, and the administration as a whole should have a few more months to prove itself.

15. (C) With equal frankness, former Thaksin cabinet member and Thai Rak Thai Spokesman Suranand Vejajiva labeled the BOT move as a "big fumble" which "destroys the credibility of the Bank of Thailand and the Ministry of Finance." The administration mishandled this matter, taking one of the strongest possible steps without having worked out the implications. If the government was willing to move so precipitously on this issue, Suranand said, one could not easily predict in what manner they might address other important developments.

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16. (C) Suranand said that most Thais in political circles would not place responsibility for the events of December 18-19 on Prime Minister Surayud. It was widely known that Surayud had delegated authority in economic matters to Pridiyathorn. Suranand told us that he (Suranand) had checked with members of Surayud's staff and confirmed Surayud had not been aware of the BOT's plans before the Bank took action.

17. (C) Former TRT Deputy Spokesman Pimuk Simaroj told us on December 20 that members of the political class were questioning whether Pridiyathorn should resign. Like our other contacts, he saw Pridiyathorn, rather than Surayud, as responsible for the debacle. He bitterly denounced Pridiyathorn's flip-flop, noting that some investors had sold stocks in the afternoon of December 19 after hearing Pridiyathorn announce the government would not reverse its policy, only to hear his announcement after the market's close that the BOT would loosen its newly-imposed restrictions. Nevertheless, Pimuk believed the public remained fairly supportive of -- or at least open-minded about -- Surayud's administration. The media's reaction to the stock market plunge would have been significantly harsher had Thaksin still been in office.

I COULDA BEEN A CONTENDER...

18. (C) Pridiyathorn -- once rumored as a possible successor to Prime Minister Thaksin, when the latter was in caretaker PM status -- reportedly had a strong interest in remaining politically prominent after the interim administration. (Ref B reported his recent lobbying to assume the top position in the Democrat Party.) He suffered a dramatic loss of face at the end of November, however: after advocating legislation regulating a government-run lottery, he bowed to pressure from opponents in the parliament and withdrew the bill. Now, having cost the investing class dearly, sent shock waves through regional markets, and damaged Thailand's international credibility, Pridiyathorn appears more

thoroughly discredited. As if he did not have enough on his plate, Prime Minister Surayud now will have to determine how to react to his principal economic Deputy's glaring failure. It is unclear whether the Prime Minister will strip Pridiyathorn of certain responsibilities or force him out of the cabinet.

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